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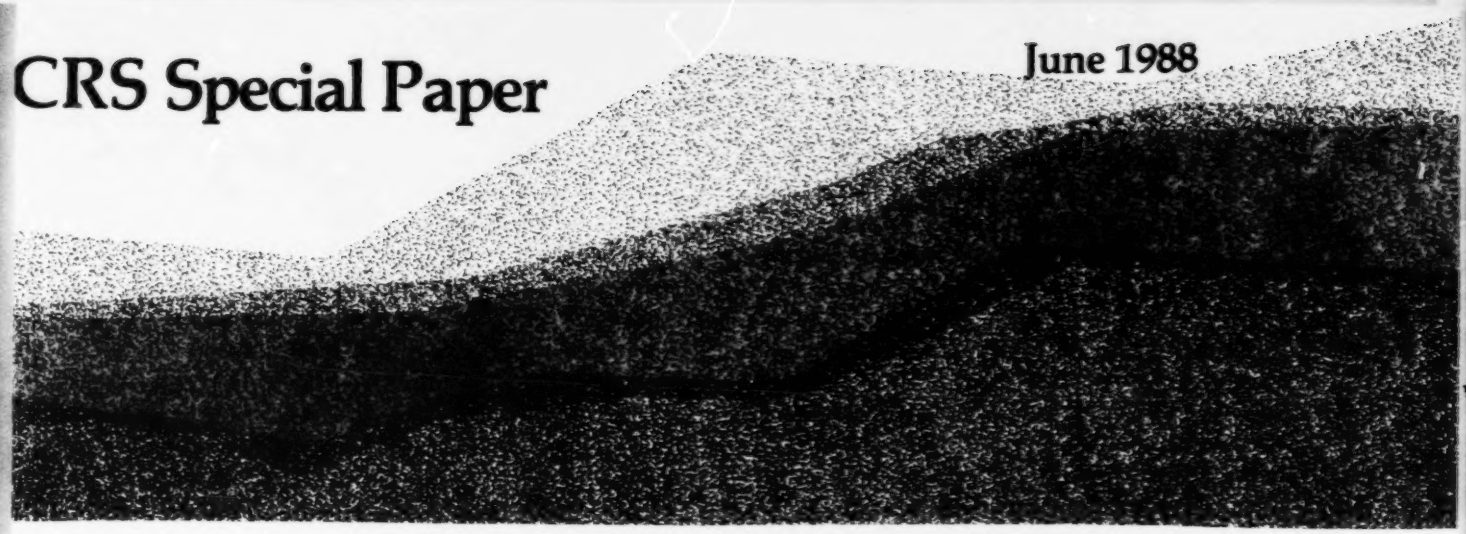

The Environment and the Economy[1]

W.R.O. Aitken[2]

Mr. Chairman, Ladies and Gentlemen, I am very pleased to have the opportunity to speak to you this evening on the subject of the "Environment and the Economy". This is one more opportunity to publicize the deliberations of the National Task Force on the Environment and the Economy on which I had the privilege to serve as Vice-Chairman. If I slip in a couple of boosts for Inco in the process, you will just have to live with that. I have to say at the beginning that publicizing the results of the task force study, which is perhaps more far-reaching in its recommendations than anything else conducted in the Canadian environmental arena, has been a frustrating task. When we unveiled our report in Quebec City in September last year, we chose the day that Simon Reisman walked out of the Free Trade negotiations in Washington. This was the morning after Tony Fernandez, the Blue Jays shortstop, broke his right elbow. Together, these events were enough to push us back to page 8 of the business section. But we didn't despair because there was another great opportunity coming up; we were about to go to the United Nations in New York to present Canada's response to the Brundtland Commission Report, which basically was the output of the Task Force study. We did this on October 19th. That was the day the New York Stock Exchange dropped 502 points. The competition for public attention was just a bit strong. So, since then, I take advantage of any opportunity I can get.

Some of my colleagues in industry have asked me what I was doing on a Task Force dealing with matters related to the environment. Perhaps that is a fair question, when you work for a company like Inco which has had a fairly high profile in terms of contributing to environmental problems. That is reason enough to be involved. We know what this is about. But the better answer is that all of us, industry included, need to get past the conflicts, the stereotypes, the misconceptions, to reconcile some of those situations and to get to solutions. Industry needs to become more involved and more influential in the development of new positions. We need to do this constructively and pro-actively rather than defensively and reactively, because, in the final analysis, it is industry that has to act to tackle problems

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1 Keynote address before Board of Directors and Advisory Council, Centre for Resource Studies, Queen's University, Kingston, Ontario, 27 April 1988.

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which can't be swept under the rug and which cannot be legislated away. The Task Force was the best opportunity in a long time for industry to participate in this process, and the industry members participated fully and effectively.

I will not plow through the report verbatim, although I would recommend that all of you read it. It's quite a unique document. It is only 18 pages long, has 40 recommendations, and may be one of the best reports ever produced arising from a government initiative. One indication of that is the fact that when we released it, 200 copies were stolen. That may be the first time on record that any government report has been seen to be sufficiently interesting to be stolen.

What I will try to do this evening is give you an overview of the Task Force process which may stimulate some thoughts on the intricate linkage between the environment and the economy, a linkage which is becoming increasingly recognized, albeit with some measure of discomfort or trepidation, on both sides of the debate.

In 1983 the United Nations established the World Commission on Environment and Development, and gave it the mandate "to propose long term environment strategies for achieving sustainable development by the year 2000 and beyond". The Commission was chaired by Madame Brundtland, the Prime Minister of Norway. She selected a multinational group of 23 people to participate. They were diplomats, politicians, scientists and academics. They represented all the major geographical areas of the world. All the major power groups were represented, the Russians, the Americans, the West Europeans and the Chinese. There were no industrialists, but to be fair, the Commission travelled the world and talked with all sorts of interest groups, including industrialists.

The Commission recognized quickly that it was essential to find common ground that would allow everyone to get on board with this study. The last thing needed was yet another "environmental issues only" study. They had to recognize the involvement of all sectors of society while avoiding confrontation based on the past. The past is addressed by regulations and cleanup is happening, perhaps not fast enough for some, but that is a question of perspective. The focus had to be on the future and the objectives had to be constructive. With such a mandate, the Commission could easily identify sufficient common interest to allow the development of a measure of consensus. Similarly, Canada's National Task Force, composed of people whose thought processes were driven by quite different forces and whose perceptions of the ideal society differed widely, could arrive at a high degree of consensus on the need for action to preserve for future generations the environment in which we live and the society in which we function.

The Brundtland Commission built on a set of common philosophy statements. The first says "the environment does not exist as a sphere separate from human actions, ambitions and needs, and attempts to defend it in isolation from human concerns have given the very word environment a connotation of naivety". That is quite an extraordinary statement to come out of a group of environmentalists, but it was an expression of realism. The second was "the word development has been narrowed by some into a very limited focus along the lines of what poor nations should do to become richer, and thus again is automatically dismissed by many". That is a damning indictment of the rich nations of the world. And the third piece of philosophy was "the environment is where we all live and development is what we all do in attempting to improve our lot within the abode. The two are inseparable". That perceptive statement unfortunately is not reflected in the structure of our governments, either provincially or nationally. There is little or no structural linkage between environment and economic ministries in our governmental systems. We have missed that target and we must do something about it.

In 1986 the Brundtland Commission visited Canada, and following that visit the Canadian Council for Resource and Environment Ministers (CCREM) established the National Task Force on environment and economy. Its objective was "to initiative dialogue on environment/economy integration among Canada's environment ministers, senior executive officers from Canadian industry, and representatives from environmental organizations and the academic community, to recommend actions, and to report back in September 1987".

The task force composition was unusual and provided all sorts of opportunity for conflict. It included seven ministers of the environment: the Federal Minister and the Ministers from Ontario, Quebec, Manitoba, Nova Scotia, Alberta and the Yukon. Turf wars are not unknown in the relationships between Ottawa and the provinces. In the background were the bureaucrats, who weren't at all sure that they liked this initiative: a powerful group, not invited to the party and concerned that they might be saddled with impossible targets. We had seven representatives from industry, including major companies such as Alcan, Dow, Inco and Noranda, all of which have been known to contribute to environmental pollution, associations such as the Canadian Petroleum Association, the Chamber of Commerce and the Ontario Waste Management Corporation. Here was a group of individual executives who might reasonably enter into this exercise with a degree of suspicion, wondering whether we were being sucked in to legitimize a new pressure group tactic. Given that sort of concern, you could be sure that the industry representatives would not take a passive position, but would want to be particularly pro-active. Then we had the environmental non-government organizations and they, perhaps legitimately, entered into this with some measure of suspicion that all of the preceding were villains. Finally we had an academic, the V.P. Research from UBC, who noted at one point that this might provide the basis for a new business; he expected to see at least 5,000 Ph.D. theses resulting from this exercise. This group had enormous potential to blow itself apart, and we came close. But we also had the breadth needed to forge a real consensus, and we did. A psychologist would have found it a fascinating exercise in group dynamics.

Just as the Brundtland Commission had found the need for common ground, so did this group. The Commission Report gave it a start. It noted that "Our Common Future is not a prediction of ever increasing environmental decay, poverty and hardship in an ever more polluted world among ever decreasing resources. We see instead the possibility for a new era of economic growth, one that must be based on policies that sustain and expand the environmental resource base and we believe such growth to be absolutely essential to alleviate the great poverty that is deepening in much of the developing world. But, the Commission's hope for the future is conditional on decisive political action now to begin managing environmental resources to ensure both sustainable human progress and human survival". This concept of a new era of economic growth took the industrial members of the Task Force beyond the Club of Rome "limits to growth" type shutdown scenarios with which we had all been familiar related to environmental initiatives back in the 1970s. Brundtland concluded that we needed growth to drive policies of sustainable development, policies which would give the Third World a chance. Now, whereas industry can't live with shutdown scenarios in which we don't believe, we can live with exhortations calling for sustainable growth, sustainable economically and environmentally.

We realized that we must keep looking forward. We don't want to forget the errors of the past; we just don't want to repeat them. If we can put the history of environmental degradation behind us, recognizing that regulations are in place to deal with those problems, we can move beyond "react and cure" methods, which are necessarily adversarial, to "anticipate and prevent" systems which are cooperative and constructive.

The industrial members of the Task Force had no problem with that approach. We have no intention of using 1920s technology. We build clean plants today. The technology exists now to allow us to do so. We are not looking for a hidden subsidy in the form of a license to pollute. We are not unreasonable people. We have children too.

But before we were through there were many problems to solve, some simply translating the shorthand English of the environmental non-governmental organizations. They may be quite familiar for example with the phrase "conservation strategies", but what does it really mean? To the average industrialist, it sounds frightening. It sounds like a shutdown. So we had to define the concepts in words which would be acceptable to all interests. Very simply, a conservation strategy is a set of principles for development, designed to ensure that the consumption of resources today will neither deny future generations the prospect of maintaining or im-

proving the standard of living, nor deny those less fortunate today in the Undeveloped World the opportunity to improve their lot. Just as long-term economic growth depends upon a healthy environment, so the maintenance of a healthy environment requires continued economic development. The two are inseparable. This is the essence of sustainable development. But what do the beautiful words mean in practical terms. If you think of the forestry industry, very simply it means, "don't harvest the forest at a rate which exceeds its ability to regenerate". That is fairly straight forward and realistic. Try mining, where you have a depleting resource which can't regenerate: in that case, "don't exploit the resource at a rate which exceeds your ability to develop another or develop a substitute product". As all of you know the resources of the earth are a long way from depleting. We have hardly touched the ocean. Recycling is in its infancy. That doesn't even get into substitution. In both cases, the message is don't compromise the sustainability of the host environment, the air, water and terrestrial resources.

After much heart searching, many words and drafts, recommendations were formulated dealing with a comprehensive range of matters including commitments from first ministers, a linkage of authority and responsibility for Ministers, business commitments to environmental assessment, measurement tools and techniques, reward/penalty systems for performance, implementation mechanisms including round tables and better educational tools.

To flesh out some of those highlight recommendations, let me deal first of all with those calling for government action, because, as a nation, we are entitled to political leadership. If environment/economy integration is really an important issue for our leaders, then we should see it as a regular agenda item at First Minister conferences. We have become accustomed to seeing agendas including Free Trade, tax reform, Meech Lake and so on. What about environment/economy integration? I am happy to say that the Task Force report was tabled and supported at the First Ministers Conference in December. But that is easy, if you like a show of plumage. Now we need substance to support it.

We need major government economic development documents to demonstrate that development programs are economically and environmentally sustainable. The separation of Resource and Environment Ministers which presently exists militates against real integration of programs. The Council of Resource and Environment Ministers is composed entirely of Environment Ministers, and does not include one Resource Minister. We need to do better than that. We need formal mechanisms to hold Ministers accountable for promoting environmentally sound economic developments. It does not make sense to have Environment Ministers imposing policies which do not recognize the economic impact of those policies. Equally, Development Ministers should not be allowed to promote development which is not environmentally sound. Government funding programs should be conditional on meeting environmental standards. There is no way that we should have the tax payers' money being spent on supporting dirty projects; and here I am not talking about the cleanup of existing problem industries, where assistance will be needed. I am talking about the support which may be offered for new development purposes, in this country or anywhere else.

Government processes for evaluation of economic development projects should include socio-economic and environmental analysis. We hear lots about pay equity; this is environment equity.

That may sound like a lot of government bashing, but believe me, this was not a one-sided exercise. Industry must get on board and show, in the same way as the First Ministers, their commitment to this objective. The Business Council on National Issues and the Canadian Chamber of Commerce should form environment/economy task forces. Tom D'Aquino, the President of the BCNI, has already written to the Prime Minister expressing his support for the Task Force recommendations. The BCNI is symbolic in the same sense as the First Ministers. This after all is the grouping of the Chief Executive Officers of Canada's 150 largest businesses, and yet the 150 largest businesses in this country are not the real environmental problem. They are very visible, they are well known, they can be regulated, monitored and controlled, they have modern technology and resources to deal with their problems. The 1,500

smallest businesses and backyard shops, some of which unfortunately have been known to deposit totally unacceptable effluents into municipal sewer systems, present a different problem. In that respect the Canadian Chamber of Commerce may have a very large part to play. Nevertheless, leadership within industry is important, just as it is in government. The BCNI with its access and influence must be on board, and I will come back to that. Industry associations should endorse, support and promote environmental assessment. Most industries or big businesses already conduct some form of environmental assessment on contemplated new projects. They are well advised to do so because, as we all know, it is much easier and in the long run cheaper to build it clean than to clean it up later. If there is a problem with this objective it is that the only environmental assessment process generally known today is the governmental one, which can take forever. Industry can't afford time delays and will not accept the process as it stands. A way has to be found to accelerate the process, to make it acceptable.

Trade associations have an important role to play in informing their members of the significance of environment/economy linkages. They must encourage their small and medium size members in particular to comply with environmental requirements. There may be some conflict in that situation, because smaller operations may not have the resources or the technology, but it is time we faced the conflict. If associations won't undertake an element of policing of their members, then they invite policing by government and we have enough of that already. Associations could provide training modules and consulting services to their members. Recalcitrants who fail to take advantage of assistance should be advised of the error of their ways, and if they won't shape up, ship them out.

Individual companies need to adopt and implement environmental principles and policies. Annual reviews of environmental performance for boards of directors are becoming more common, and, given the punitive nature of recent legislative changes, they need to be. Industry must operate responsibly in all jurisdictions, foreign as well as domestic. If we go offshore, then we must behave as if we were at home. My own company is a good example in this respect. When we established our mine and smelter in Indonesia 15 years ago, there were no environmental regulations there. In the vacuum, we chose to design to Ontario standards.

We need to develop different analytical methodologies for project assessment. If we consider cost-benefit analysis, traditional DCF return on investment techniques don't work in relation to the value of the environment. A DCF ROI technique renders insignificant benefits that arise more than 5 or 6 years out, a simple function of interest rates, but environmental impact goes on for generations. DCF techniques nevertheless are a fact of business life. In a free enterprise world we compete for investment capital and, unless we provide returns that satisfy investors, we don't get it. We need to find better ways to analyze and evaluate environmental risks and impacts. The economic research organizations of the country should explore the tools which we might use to develop pricing mechanisms and incentive systems which would make an environmental investment attractive on a cost/benefit basis.

We need carrots as well as sticks. There are many papers written on contaminant charge schemes and tradeable emission/discharge rights. I don't like these. To me, they smack of buying the right to pollute. We hear about financial assurance and performance deposits; we need to balance the ledger and hear something about investment tax credits and credits for improving on environmental standards.

We need to upgrade environmental education, particularly at elementary and junior high school levels. Environmental economics should be included in high school and undergraduate study courses. This is one for the future, and we need to do better than we are doing now. Today, environmental instruction to our children is given largely by people who appear to get most of their knowledge and interpretation of the subject from the media, which is not an original source of factual data on this topic.

Then we need a mechanism to ensure that the initiative which has been started by the Task Force is kept going. The Task Force recommended multi-sectoral round tables on the environment and the economy with chairpersons appointed by the First Ministers.

These round tables would operate principally at provincial and territorial levels. The provinces would send members to a federal level round table with the chairperson of that one being appointed by the Prime Minister.

The sequence which I followed in running through the recommendations of the Task Force started with a First Minster commitment and ended with Round Tables reporting to First Ministers. That may not be entirely a coincidence, because that is the level of involvement which we require if the initiative is to succeed.

So what has happened since the report was issued and where is all this activity going?

The report was tabled and accepted at the First Minister's meeting in December 1987. Since then Ottawa has been slow to move. Perhaps "cautious" is the right word. The government may have its sights firmly set on a predetermined election agenda, which does not yet appear to include the environment. That's a little strange, because the environment can be an enormous election issue; it certainly was a huge vote-getter for David Peterson in Ontario. Free trade, tax reform, Meech Lake, together with child care, nuclear submarines and so on may be seen to be enough of a handfull. However, the Prime Minister and other Ministers have recently begun to speak out on the environmental issue.

Certainly there needs to be national leadership, because, apart from regulation, this is not a provincial matter. National boundaries are not respected by pollution. It is an international issue.

The provinces appear to be moving ahead, with Quebec in the lead and Ontario close behind, on the establishment of Round Tables, the logical successor mechanisms to the Task Force. If these provincial round tables establish good networking relationships, they may develop, de facto, into a national and hopefully coordinated body.

And where is industry in all of this? It has been said that the ball is now in industry's court to respond. The BCNI has written to the Prime Minister indicating its support for the report. The BCNI is the organization best qualified to play a leadership role in presenting an industry position. As well as access in Ottawa, those business leaders have huge resources at their disposal. They have clout internally as well as externally. Happily I can say that they are going to use it. It is on their agenda and they will be taking a position.

And what should that position be? As I talk to people, I find more and more worried businessmen who recognize the magnitude of the potential problem facing them in dealing with environmental issues related to their industrial activities. The combination of MISA, Regulation 308 on air quality, toxic waste regulations, and "right to know" legislation will leave few untouched. These are issues which are widely discussed, frequently on a poorly informed basis. Nevertheless, the issues are real, the focus is sharpening, they will not go away. Many people, particularly those in small businesses, are extremely concerned about what, if anything, they can do to cope with this onslaught of regulation, apart from going broke. These are all sensible, intelligent, decent people. They are family people and they don't want to destroy the environment for their children. Nevertheless, in many small businesses they simply do not have the technology, the resources or the time to address some of the problems that they may create.

John Bullock and the CFIB tell us that 96 percent of the companies in Ontario employ less than 20 people. These are the entrepreneurs and the job creators. Frequently they are also the polluters, because they have no option. As one CMA group told me, when you are working hard at getting a job for $100,000 which may employ 10 people for 2 months, you don't have the time or resources to contemplate the impact of what is a relatively minor addition to the total pollution load. This is absolutely true, and it is one reason why municipal garbage or sewer systems are misused for disposal. I believe that there is a need for a central facility which can provide a service to small businesses, taking their waste products off their hands and either reprocessing or sanitizing them. I see this as the sort of operation which, for a fee, would provide a great deal of relief to the small businessman by handling his wastes. It could be run under contract to the Ministry by one of the bigger corporations which has the necessary high technology, and privatized when profitable. It would address

an issue with which the government is struggling and it would be a real indicator of government's intention to participate in the solution other than by legislative action. This could be a valuable demonstration project.

At the other end of the spectrum, I see a need to change government policy in a way which would create incentives to improve industry's environmental performance. It is said that industry only reacts to legislation and that may be quite correct. Why should it be any different? There is no incentive to do otherwise. I am not aware of any jurisdiction anywhere in the world which has developed an effective incentive scheme which would encourage businessmen to operate at better than minimum environmental standards. And yet if an attractive incentive existed, most likely in the form of a suitable tax concession, I believe that almost every industry could do better than it is doing today. But industry needs the economic impact "carrot" to encourage it to take such action, because we compete for investment capital. DCF/ROI techniques may not entirely please the environmental community, but they work, so why not use them? Recognize that the pressure of the "bottom line" drives industry. Given the right incentives, projects with an attractive payback would be developed to improve the environment in just the same way that they are developed now to improve productivity. Incentives could take the form of a reintroduction of accelerated capital cost allowances for environmental improvement projects, or some modification of the "flow through" share scheme which worked so well for exploration. It revitalized that business. If it could work so well for that business, why could it not be just as effective for the environment. Given the high degree of public concern which exists in Canada over the environment, fiscal policies such as these would be totally appropriate, and if for any reason these don't fit, a good tax accountant could quickly suggest alternatives. If Canada chooses to, it could set an example for the world by pioneering an effective environmental incentive plan. Industry would grab that ball and run with it.

I have suggested two quite different opportunities. No doubt there will be others. What we can be sure of is that an opportunity exists right now for business to take the initiative. If business does not, then we will miss a chance which may not surface again for another decade, and that would be a decade for adversarial, punitive legislation. None of us can afford that, least of all our children.